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Weekly Review

~~Top Secret~~

13 December 1974

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

France-USSR: Another Summit

The Soviets always find something to exult about when party leader Brezhnev has one of his summit meetings, but in truth Moscow has good reason to be pleased with Brezhnev's talks last week with French President Giscard d'Estaing. The Soviet leader wound up three days in Paris with a significant economic deal and with what he probably regards as a gain on a political matter dear to Moscow's heart.

The portion of the communique issued at the end of the visit that deals with the European security conference illustrates the change of style that characterizes President Giscard's foreign policy. Reportedly drafted at long, difficult sessions, and partially by the two leaders themselves, this section notes that progress has been made at CSCE and adds that both sides are determined to

step up efforts to "concert" on the many issues that remain unresolved. It states that "good prerequisites have been created" for concluding the conference at an early date and at the summit level. Although the prerequisites apparently have been identified, there is no indication that they have been met. The Soviets will emphasize the statement that supports their view that the conference can move to an early conclusion, while the French are placing emphasis on the preceding sentence regarding questions that remain to be settled.

France has never opposed outright a summit-level conclusion to the conference, but former President Pompidou used to emphasize the negative aspects of the French position, saying that no decision could be reached until it was clear that



the results would justify such a meeting. Giscard, characteristically, has taken the positive angle.

Soviet embassy officials have noted the shift in the French approach. One expressed the opinion that the French may have wanted to "keep up" with the reference to a CSCE summit in the Vladivostok communique. The Soviets have also told US embassy officers, however, that there has been no movement on such particulars as the French proposal for cultural centers and reading rooms, which the Soviets firmly oppose.

The fact that almost a week has elapsed without adverse reaction from France's West European allies to the communique's references to CSCE suggests that Paris consulted with them on this issue prior to the Giscard-Brezhnev summit or that the allies believe their interests have not been compromised.

On other foreign policy issues, the communique and Soviet press commentaries reveal a near identity of French and Soviet views on the Middle East and Cyprus. One important difference remaining between the two countries is over the force-reduction talks. The absence of this subject from the communique indicates that the Soviets failed once again to elicit a French agreement to participate in the negotiations.

Bilateral economic matters were featured prominently at the summit and several agreements were concluded, notably an accord on long-term French credits. This agreement, reached only after hard bargaining, calls for France to provide the USSR with \$2.6 billion in long-term

credits in support of Soviet purchases of French machinery and equipment during 1975-79. The USSR has been accustomed to paying about 6 percent interest on French credits, and their willingness to accept rates approximating 7.5 percent on this latest credit line suggests an awareness of the tight money situation prevailing in the West.

In addition, the leaders signed a pact on overall trade and economic cooperation during 1975-79, which is largely a restatement of previous five-year agreements. Centering on the mutual desire to facilitate and increase trade and couched in generalities, it contains no firm commitments in conflict with the EC ban on bilateral trade agreements that goes into effect on January 1.

An agreement was also reached providing for France to receive 250 million cubic feet a day of Soviet natural gas in 1976, to be increased to 387 in 1980 and thereafter. This will help France to diversify its energy sources and will add significantly to Soviet hard-currency earnings.

Not all of Brezhnev's time was devoted to matters of state. His meeting with French Communist Party leader Marchais at the Soviet embassy took place in what was described as an atmosphere of "friendship, solidarity, and complete mutual understanding." The French party endorsed the Soviets' detente policy, but there was no sign that any agreement was reached on the more controversial issue of how the French Communists should manage their alliance with the non-Communist left.

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EC Summit: A Qualified Success

At the Paris summit this week, the EC Nine reached a compromise on the crucial issue of British "renegotiation" demands and may have made some progress toward a common line on EC external energy policy. The summit also presented a realistic assessment of the deteriorating state of Europe's economy, and the leaders agreed that the US and Europe could overcome current

problems only by implementing complementary policies. In view of the pessimistic outlook only a couple of weeks ago, the summit was a moderate success both for the community and for President Giscard personally; however, the real test will be when the general principles and high rhetoric of the communique are translated into concrete actions by the community.

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The French saw the summit as an opportunity to give a badly needed boost to the community concept through changes in institutional procedures, especially to advance—however modestly—the political integration process. The communique does in fact point toward increasing convergence of economic and political cooperation. The most immediate institutional innovation will be the replacement of the overly publicized annual summits by at least three heads-of-government meetings a year—the first to convene during the first quarter of 1975. The agreement to increase the use of majority voting will probably still leave the most difficult issues to be bucked up to the heads-of-government level. Regularization of meetings at that level may expedite community procedures.

The communique further calls for elections to the European parliament by direct universal suffrage "any time in or after 1978" and notes that the parliament's competence should be extended. The British and Danes formally begged out of electing their delegates by direct vote, for the present at least.

London's demand for a substantial reduction in its contribution to the EC budget caused an acrimonious exchange—probably intended largely to impress respective domestic audiences—between Prime Minister Wilson and Giscard. Although the communique's language is extraordinarily convoluted, the EC Commission is instructed, in effect, to meet the UK's request by devising a "correcting mechanism" that will reduce Britain's EC budget contribution to a "fairer share." Wilson, probably with calculated pessimism, told the press that progress has been made toward satisfying British "renegotiation" demands but that there is "a very long way to go" and the outcome is still "very much in doubt." According to a cabinet official, however, Wilson is pleased by the outcome of the summit discussion of British "renegotiation."

On the energy problem, France did not announce an intention to join the US-sponsored

International Energy Agency and stated it would not make any policy change until after Giscard's discussions with President Ford this weekend. Although the communique is silent on this score, Giscard claimed in his press statement that France's partners expressed their interest in Paris' call for a consumer-producer conference; France, in return, would go along with preliminary consultations among the industrialized oil users. The Nine pledged to "work out and implement a common energy policy in the shortest possible time," in large part in order to present a more unified front within any larger cooperative effort. The Nine will take up a common energy policy in detail at the council meeting on December 17.

The discussion of economic problems reflected growing concern over the level of unemployment, which is expected to exceed four million by next spring. Giscard has been given a community mandate to urge President Ford to stimulate US domestic demand and to maintain a high level of employment in order to avert a deepening of the international recession. Although Chancellor Schmidt pressed for urgent common action in Europe to deal with recession and inflation, how much actual coordination will be achieved remains to be seen. The summit did recognize that "complementary" measures for surplus and deficit countries were in order. The EC economic policy coordination group, which has been inactive, is to be revived.

The agreement to establish a \$1.6-billion aid fund, which will benefit the community's poorest regions, was announced as expected. The EC Commission hopes that agreement on project criterion and fund administration can be reached by the council early next year. The main recipients are: Italy—40 percent, UK—28 percent, France—15 percent, and Ireland—6 percent. The fund is to be implemented on an "experimental" three-year basis, most likely in response to Bonn's demands, since Germany is by far the major donor.

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Cyprus: Makarios Returns

Archbishop Makarios has stressed the need for unity among Greek Cypriots and for reconciliation with Turkish Cypriots since his triumphant return to Cyprus on December 7. The Turks and the Turkish Cypriots remain wary, but Makarios' relatively restrained behavior to date has at least kept alive the prospect for a negotiated solution to the Cyprus problem.

In his homecoming speech, Makarios avoided inflammatory rhetoric, although he blamed the island's current predicament on the former Greek military regime's attempt to overthrow him and the resulting Turkish invasion. He issued a general amnesty to all those who participated in the July coup, but noted that he would not accept a fait accompli brought on by the Turkish invasion. Makarios also repeated his opposition to the forced transfer of populations, which he regards as tantamount to partition. He struck some conciliatory notes, however, citing the need to abandon the chauvinistic tendencies of the past and his desire for negotiations with the Turkish Cypriots.

At a press conference on December 10, Makarios declared that he will give former acting president Clerides written negotiating instructions in a few days. Makarios predicted that political talks between Clerides and Turkish Cypriot leader Denktash would begin within ten days. The instructions will provide a more accurate measure of Makarios' willingness to cooperate than the rhetoric he has been voicing since his return to the island. Although the archbishop refused to discuss details at the press conference, he did say the instructions would be in accord with the common line agreed to at the Athens summit earlier this month in which Greek Prime Minister Karamanlis and Clerides also participated.

Makarios' announcement followed a threat by Clerides to resign his position as negotiator within 15 days, if the newly reinstated President did not grant him written approval to pursue the proposals agreed to in Athens. While denying the existence of a rift with Clerides, the archbishop favors a tougher negotiating stance than the

former acting president and gave only grudging approval to the more flexible approach advocated by Clerides and Karamanlis. Makarios doubtless also considers Clerides to be a greater threat to his presidency now than before his exile, given Clerides' increased visibility over the past five months, his relative success in governing the Greek Cypriot community under difficult circumstances, his successful negotiation of humanitarian issues with the Turkish Cypriots, and his aroused ambitions.

Makarios commented at his press conference that he has become more conscious of the "very sad reality" on Cyprus, and his remarks to groups of refugees were noncommittal. This suggests that his first-hand view of the situation on the island has been a sobering experience that could persuade him to adhere more closely to the line worked out in Athens.

Makarios' homecoming speech drew a cool response from Denktash, who stated that the Turkish Cypriots want to keep the door to negotiations open provided the Greek Cypriots, and Makarios in particular, accept the new realities on the island. Denktash repeated his call for a bizonal geographic federation and added that the powers of the regions in relation to the federal government as well as the size of the Turkish Cypriot sector were negotiable.

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Mexico: A More Radical Outlook

President Echeverria is increasingly directing Mexico's traditionally conservative foreign policy toward a more radical path. Using natural resources, multinational companies, "fascism," and rich nations as his targets, he is striving to forge stronger ideological and economic ties with the nonaligned nations.

The relentless push to have his Charter of Economic Rights and Duties of States adopted by the UN this week, over the objections of the US and other industrialized nations, is the latest example of this trend. Others are the abrupt diplomatic break with Chile, his attacks on "squandering" nations at the World Food Conference, and his call for a Latin American economic organization that would include Cuba and exclude the US.

The debate over the charter, first proposed by Echeverria in April 1972, produced the latest in a series of confrontations between the less-developed and developed countries. The US and other countries that voted against the charter objected to its language in articles dealing with nationalization, producer cartels, and raw materials prices. Compromise might have been possible over time, but Mexico insisted on action at the current session.

The sudden break with Chile two weeks ago portrayed the Echeverria government as a righteous critic of foreign intervention and neo-colonialist intrigue. Chile had become a moral issue with Echeverria, who has not concealed his distaste for the military government nor denied the widespread assumption that he broke with the junta as a protest against "fascism." In this instance, he seemingly brushed aside Mexico's long-time foreign policy guide, the Estrada Doctrine, which states that a government will neither formally recognize nor withhold recognition because of another government's origin or ideology.

At the World Food Conference, Echeverria castigated the great powers for squandering the world's resources in arms races and called for the establishment of a world food bank. Echeverria

also advocates cartels among producers of raw materials. Although none of Mexico's principal exports—coffee, sugar, cotton, and semi-manufactured goods—has benefited from such cartels, Echeverria believes that they offer an opportunity for balancing the economic power of the developing and industrialized nations.

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Together with Venezuela, the Mexicans are pushing ahead with plans to form an exclusively Latin American economic organization. Still in the early planning stages, the organization would focus on mutual economic cooperation.



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In economic matters, Echeverria is trying to turn Mexico away from its heavy dependence on the US. His efforts are wide-ranging, but have not produced many big commercial agreements. Nevertheless, in the past two months he has dispatched cabinet-level delegations to Eastern Europe, Cuba, and Venezuela for trade talks. Negotiations will soon be opened with the EC for a cooperation agreement, and officials have been working at obtaining a similar arrangement with CEMA. In addition, Mexico hopes to join OPEC once exports of oil reach higher levels.

It is difficult to see what Echeverria hopes to gain with his appeals to the nonaligned nations other than some future trade and investments. He has a deep and apparently genuine interest in new economic relations between developed and developing countries, but his demagoguery runs the risk of offending some countries. It is possible that with only two years left of his six-year term, he is trying to compensate for his domestic social and economic troubles with daring foreign policy ventures. In private, however, Echeverria continues to indicate that he wants to maintain a special relationship with the US, and he cooperates with Washington in most areas.



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Karamanlis opening parliament

GREECE: PARLIAMENT CONVENES

The Greek parliament convened this week for the first time in seven years, one day after a plebiscite on the monarchy resulted in a resounding defeat for exiled King Constantine. Almost 70 percent of the voters cast their ballots last Sunday for a republic—a clear mandate that should finally put to rest an issue that has been bitterly divisive for more than a century.

An interesting aspect of the referendum, which all political factions agreed was the most honest plebiscite ever held in Greece, was that large segments of the previously royalist rural population joined urban voters in turning down a return to the monarchy, suggesting that the socio-economic gap between urban and rural areas is closing. The unambiguous rejection of the monarchy should placate the republican left, which did poorly in the recent election, and further strengthen the position of Prime Minister Karamanlis, whose New Democracy Party holds a commanding majority of 220 seats in the 300-member parliament.

In his first policy speech before the new parliament, Karamanlis said his government was

reviewing the status of US bases in Greece and "entering into the technical aspects" of Greek withdrawal from the military side of NATO. The Greek government has already sent notes to both NATO and the US government, indicating that it is ready to begin talking about these issues. The note to the US government on bilateral security arrangements appears to confine the discussion to those provisions of the agreements that are under the NATO umbrella. The Prime Minister, nonetheless, emphasized in his speech Athens' desire to maintain political, cultural, and other ties to the West.

The Greek government has repeatedly tied any reconsideration of its stand on NATO to progress on Cyprus and to improved relations with Turkey. The Prime Minister's comments can be seen in part as pressure on the US and NATO to urge Turkey to be more conciliatory. The US embassy in Athens characterizes Karamanlis as without doubt a man of the West who harbors no illusions that Greece could be either nonaligned or an ally of the East Europeans. The embassy cautions, however, that this does not mean he is in a position to reverse—or even wishes to do so—the so far largely rhetorical withdrawal from NATO that Greece has undertaken. It notes that even should there be a Cyprus settlement and a substantial improvement in relations with Turkey, a reversal of the withdrawal would not be automatic.

Karamanlis told the parliament, which is empowered to revise the constitution, that he would present it with a draft constitution next week. The constitution is expected to strengthen the executive, but it is not clear if this strengthening will apply to the presidency or the prime ministership. Asked recently if the new republic would be modeled on that of West Germany—a popular subject for speculation in the press—Karamanlis said that Greece did not need foreign models or constitutional experts. He then gestured toward his forehead, saying "the future Greek constitution is here." The parliament has three months to debate the constitution, but Karamanlis has asked for rapid approval.

Karamanlis spoke harshly of Turkey in his speech, noting Ankara's "aggressiveness" and "provocative behavior." He said that the serious disputes between Athens and Ankara involved other vital interests—a reference to the Aegean dispute—as well as Cyprus, which the Greek government "would not leave defenseless." In reiterating his support for the Greek Cypriots, he assured them that Athens would not yield to accomplished facts or accept a dishonorable solution to the Cyprus problem.

The government can be expected now to turn its attention to the economic ills afflicting the country. The three main problems are:

- revitalization of the economy, which this year has stalled at a zero growth rate;
- prevention of a resurgence of the inflation that plagued the economy from the last quarter of 1972 into the first quarter of 1974;
- perennial balance-of-payments difficulties, which were aggravated this year by soaring oil prices and plummeting tourism earnings and emigrant remittances.

Fortunately, the government's economic decision-makers are strikingly more qualified than those who served the junta. In addition, Karamanlis' overwhelming victory at the polls should assure businessmen and potential investors of the increased probabilities for a stable and sympathetic government for the next four years.

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DENMARK: ELECTION NEXT MONTH

Faced with stiff opposition in parliament to his ten-point economic package, Prime Minister Hartling has turned the debate over this issue into a national referendum by calling for a parliamentary election on January 9.

Hartling's hopes of ramming the emergency legislation through the 179-seat Folketing faded when it became clear that he did not have the support of a majority of members. With his

Moderate Liberals controlling only 22 seats, the Prime Minister decided to go directly to the people rather than face a long uphill battle.

The austerity plan, which now awaits the election results, is designed to reduce the 15-percent annual inflation rate, the 5-percent unemployment rate, and the huge trade deficit. The package calls for a wage and price freeze, suspension of the link between wages and the cost-of-living index, and strict control of agricultural prices.

Hartling has weathered some difficult times in the past over economic measures. On three occasions since taking office a year ago, he has threatened to resign if parliament did not approve his proposals. Each time, Hartling has managed to squeak through after offering last-minute compromises.

During the past year, Denmark's increasingly serious economic problems have sparked widespread demonstrations. Some 75,000 leftists marched on parliament last month to protest the country's high unemployment and to demand Hartling's resignation. Last May, following a compromise with parliament that led to an across-the-board tax hike, workers protested the new taxes by participating in nationwide wildcat strikes.

The Prime Minister is now gambling that none of the other ten political parties can come up with convincing solutions to the country's economic problems. Hartling has already launched his attack on the other parties by criticizing both the socialist bloc on the left and Mogens Glistrup's Progressive Party on the right for opposing "the only plan that could restore full employment."

Hartling hopes to "win" the election by strengthening the center, to which his Moderate Liberals belong, at the expense of both the left, and the right. Public disillusionment with the ability of any of the parties to deal effectively with the country's economic problems, coupled with the proliferation of parties, which now number 11, will make it difficult for any to register significant gains.

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FRANCE: NAVAL REORGANIZATION

As a result of a recently completed review of changing strategic requirements, the French navy is seeking authorization to make major redeployments in its Atlantic and Mediterranean fleets. The key aims of the shifts would be to reinforce the Mediterranean fleet and to increase French anti-submarine warfare capability in the Atlantic.

A naval high command study reportedly was undertaken earlier this year to determine the feasibility of permanently reinforcing the Mediterranean squadron. The study apparently was made in response to a growing French awareness of the increased importance of the eastern Mediterranean, especially after the Suez Canal is reopened. The French were also said to be spurred by a desire to "show the flag" in an area that, in their view, has become the privileged waters of the great powers.

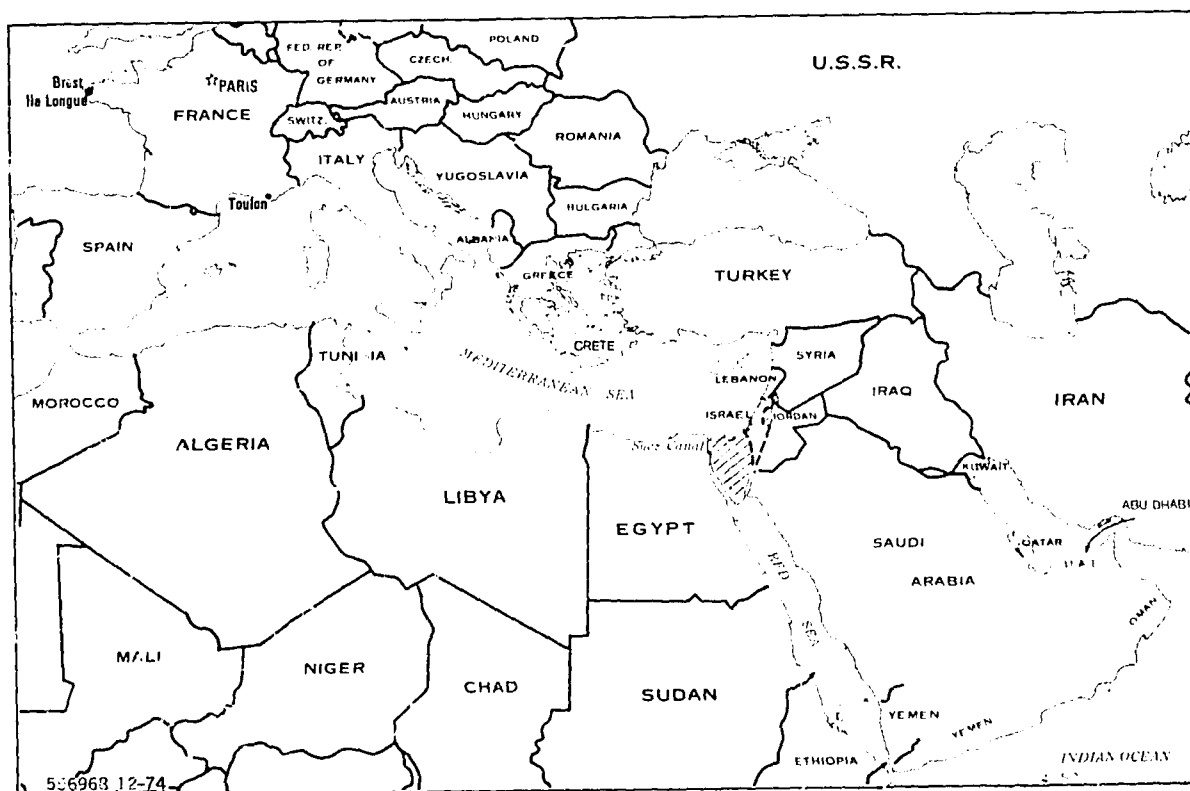
The Atlantic and Mediterranean Fleets

Preliminary plans reportedly call for the transfer of France's two aircraft carriers, a guided-

missile cruiser, and two guided-missile frigates from their home base at Brest to the Mediterranean Fleet home base at Toulon. In return, the Atlantic Fleet would receive five anti-submarine warfare ships from Toulon. The strategic ballistic-missile submarine force would remain in the Atlantic at Ile Longue, near Brest.

The French navy apparently does not believe that the shifting of the carriers and the guided-missile boats will seriously affect the ability of the Atlantic Fleet to meet its primary requirements. The navy sees the Soviet submarine force as its greatest threat in the Atlantic and probably views the gain in anti-submarine fighting strength as adequate compensation for the loss of some surface and air capability.

According to press sources, President Giscard will examine the proposal shortly. Previous statements by Giscard indicate that he will react favorably. In his October press conference on the French defense review, Giscard noted that all recent conflicts in the Mediterranean have



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involved conventional forces, and he hinted that France would provide more flexible conventional means for overseas intervention in pursuit of its national interests.

The Mediterranean Fleet currently has no offensive air arm, and the proposed transfer of the two aircraft carriers would provide the fleet with conventional air and antiaircraft capabilities. Plans also call for the aircraft carriers to begin receiving Super Etendard attack aircraft in 1977. These carrier-based fighters reportedly will have a tactical nuclear-delivery capability, and their appearance in the Mediterranean would add a significant new dimension to French military power in the area.

[redacted] the redeployment could begin early next year if Paris decides soon to authorize the moves. The shifts would require about a year to complete. The French deputy chief of naval operations said in late November, however, that he anticipates the government will move more slowly and that nothing will be done before 1976.

Moves in the Indian and Pacific Oceans

Paris began taking measures earlier this year to increase its naval presence in the Indian Ocean, apparently in reaction to what it perceives as a growing Soviet and US influence in the area. In April, and again in October, squadrons of ships have been sent out temporarily to augment the naval forces permanently assigned there.

The navy is also studying ways to increase its capability to support its contingents in the Indian and Pacific oceans. The French maintain small naval forces at New Caledonia and Tahiti in the Pacific. Each year since 1966 they also have sent a temporary task force to French Polynesia to support their nuclear test program.

The reduction of foreign bases and the anticipated loss of others has prompted the navy

SOYUZ 16 MISSION COMPLETED

The manned Soviet spacecraft Soyuz 16 returned safely to earth on December 8. During its six-day mission, the Soviet crew tested equipment and procedures for use during the joint Apollo-Soyuz mission scheduled for next July. In addition, the crew carried out a series of scientific and biological experiments.

The flight apparently encountered no problems serious enough to jeopardize the joint mission: [redacted] 25X1

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to develop a program to facilitate logistic support to ships while they are under way. Recently, a repair ship was permanently reassigned to the Indian Ocean fleet, and the first of five tankers intended to support high seas naval forces reportedly is scheduled for commissioning in 1976.

The reopening of the Suez Canal this spring will have a significant impact on the Indian Ocean fleet. In addition to becoming a strategic oil artery to Europe, the Red Sea route will greatly shorten the logistic support line to French naval forces in the Indian and Pacific oceans.

Long-Range Plans

Longer range plans call for the creation of two nuclear-attack submarine squadrons in the early-to-mid 1980s. The recently retired head of the French navy said last year that the first such squadron would be based at the Brest naval base complex, and that the second would operate out of Toulon. These modern submarines will probably replace, rather than augment, existing conventionally powered boats. In order to base nuclear submarines at Toulon, the French will first have to construct a nuclear support facility there. Such a facility, of course, could be used to support French nuclear ballistic-missile submarines as well. [redacted]

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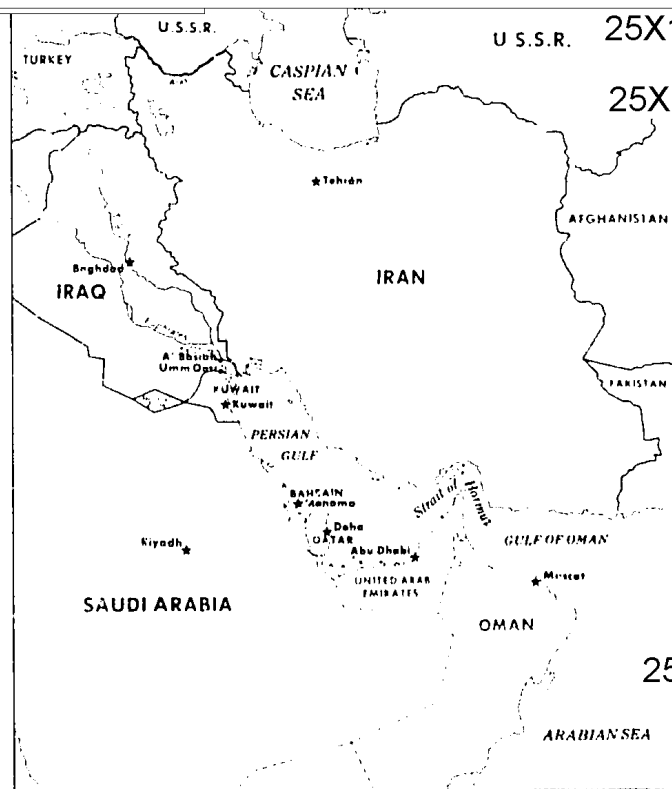
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USSR-IRAQ: NAVAL SUPPORT

In May 1974, the Soviet navy initiated a patrol of the Persian Gulf, primarily in the area of the Strait of Hormuz. The patrol has been maintained ever since except for a six-week hiatus in August and September. Two ships alternate patrols with visits to Iraqi waters. Most frequently these are the fleet minesweepers, but occasionally an intelligence collector has taken up the patrol.

[redacted] a repair ship at the Iraqi naval pier in Basrah since April 1974. Iraqi patrol boats apparently are also serviced by this ship.

While on station far from home waters, Soviet navy elements rely principally for support on auxiliaries in international anchorages and foreign ports. Soviet ships have been serviced by repair ships in Alexandria, Tartus, and Berbera as well as Basrah. The repair ship can serve a purpose similar to shop and storage facilities on shore for routine



maintenance or minor repair of Soviet naval units. The repair ship's extended stay in Basrah probably reflects an arrangement that is beneficial to both Iraqi and Soviet navies.

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CZECHOSLOVAKIA: REFORM RUMBLES

Long-postponed economic reforms seem to be in the offing for Czechoslovakia as evidence of trouble in the 1974 plan mounts.

Since the current leadership took power in 1969, economic problems have been sidetracked by the more pressing political situation. The economy has drifted, guided only by an unambitious five-year plan. National income and industrial production have grown a lackluster 5 to 6 percent per year. The consumer, however, has been placated by more and better goods at stable prices. A portion of the leadership is now convinced that fundamental political stability has been achieved and that economic problems have become severe enough to warrant serious concern.

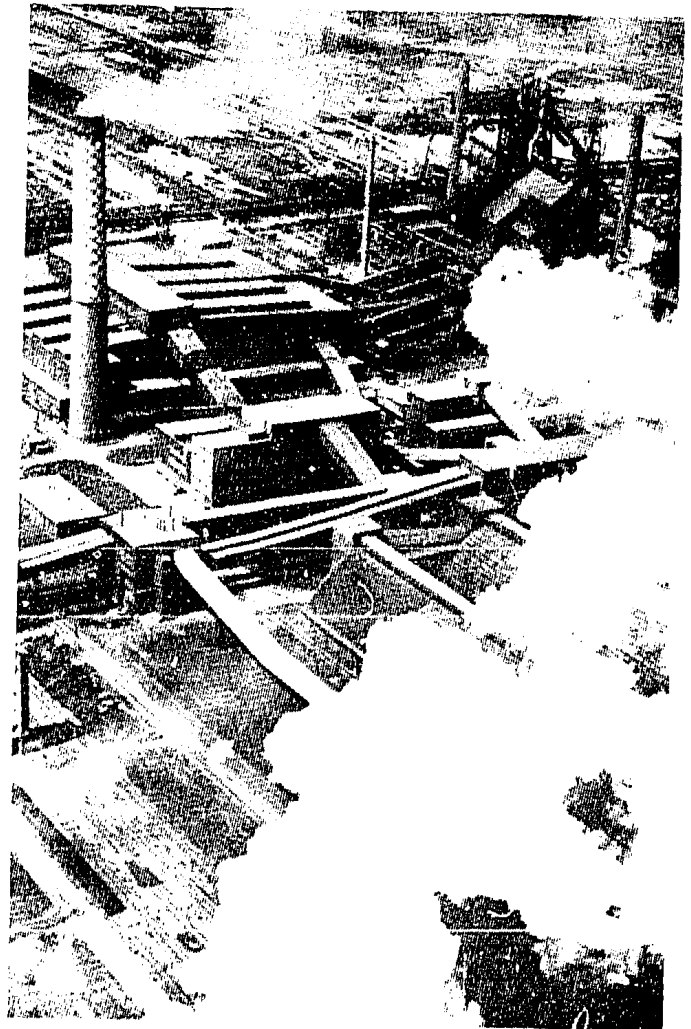
Industrial production is lagging behind planned goals. Recent increases in the prices of raw material imports combined with a slow growth in export volume probably will result in a record hard-currency deficit this year of \$500 million. A similar pattern of setbacks resulted in the reform movement in the early 1960s. High-level Czech planners have noted recently that a large hard-currency deficit might shock the political leadership into instituting reforms in time for the 1976-80 plan.

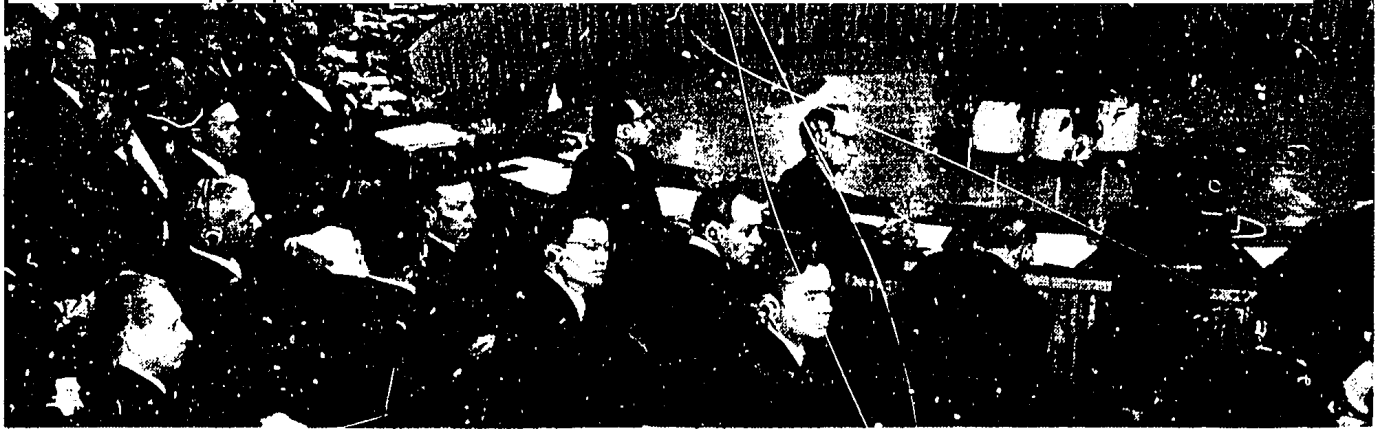
Premier Strougal said last month that a more flexible system of planning may be in the offing and hinted that some of the middle-level participants of the 1968 reforms may be called upon to help work out needed changes. A resolution at the recent Central Committee session called for material incentives to spur better management. Numerous articles praising the Hungarian economic reforms have appeared in Czech economic journals.

Prague may be planning to increase its purchases of Western machinery and technology, mostly by drawing on its excellent credit rating. Speakers at the Central Committee meeting attacked the cost and sluggishness of domestic technological development. After much debate, the leadership has become convinced that selected purchases of machinery and licenses from the

West would help revitalize Czechoslovakia's faltering export industries.

The leadership will be cautious in bringing about major reforms, keeping in mind the experiences of 1968. Changes will be made without fanfare, and Moscow will undoubtedly be consulted. Minor changes could occur within the next few months, possibly including wholesale and retail price increases and fuel rationing. Major changes, such as giving enterprises more decision-making power, could hardly be instituted before 1976, the first year of the new five-year plan. [REDACTED] 25X1





Soviet delegation to MBFR talks (center foreground)

MBFR TALKS DEADLOCKED

The force reduction talks in Vienna, now in their second year, ended their fourth round this week with the sides deadlocked. The Soviets and their allies apparently are not disturbed by the impasse and seem content to play a waiting game. Several of the West European participants are getting restless, however, and are coming to believe NATO should reconsider its negotiating position.

The Soviets have presented two proposals during this negotiating round. The first, a version of the "symbolic reduction" proposal raised in previous rounds, has been rejected by the West because it:

- calls for equal reduction by both sides;
- would codify the existing disparity in size between NATO and Warsaw Pact forces;
- would establish ceilings on the armed forces of each West European participant.

Nevertheless, the Western Allies have told the East that they see two positive aspects to this proposal: the East has differentiated to a limited degree between the US and USSR, on one hand, and the other direct participants on the other; and the East has suggested negotiating two separate agreements in sequence.

In late November, the East proposed that the direct participants agree "not to increase the numerical strength of their forces in central Europe for the duration of the negotiations." Although the Allies agree that the Soviet offer is

unacceptable, they have had difficulty in formulating a response. Some West Europeans favored making a counterproposal, but eventually agreed that Western negotiators could tell the Soviets that the Allies have some specific objections to the freeze proposal but are still studying it.

The West Europeans' desire to make a freeze proposal reflects their changed perceptions of the force-reduction talks. Partly because of political and economic pressures on several states to cut their forces, nearly all the major West European participants are uneasy about the lack of progress in the negotiations. The British, Belgians, and Dutch have all expressed qualms about the Allied objective of having reductions in two phases. Recently, there have been indications that the West Germans are also doing some hard thinking about phasing, and perhaps about other Western negotiating goals as well.

With the exception of Belgium, no West European country has formally proposed that the NATO approach on the force reduction talks be revised. They appear to be awaiting an initiative from the US, perhaps on the so-called Option III, or "nuclear sweetener." This option would have the US offer to withdraw nuclear warheads, nuclear-capable aircraft, and Pershing missiles in return for the Soviets withdrawing a tank army. Most of the Allies appear to favor trying Option III, but all the West Europeans want a full discussion to take place within NATO before introducing a nuclear offer in Vienna.

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GERMANY: MUTUAL EAST-WEST CONCESSIONS

The details of the package deal between East and West Germany, involving concessions on West Berlin and economic issues that the two sides have been negotiating since last summer, were prematurely revealed this past week by Pankow.

Inter-German relations have been burdened during the past year by such developments as the notorious Guillaume espionage case that led to former chancellor Brandt's downfall and East German harassment of autobahn traffic in retaliation for Bonn's decision to establish a federal environmental office in West Berlin. Last weekend, Pankow confirmed its reputation as the "bad boy" in the inter-German dialogue by leaking to the East German press the details of Bonn's concessions in the negotiations.

The so-called "leak," which appeared in *Neues Deutschland*, disclosed that Bonn on December 6 had initialed an agreement to extend the interest-free credit arrangement that helps finance a portion of bilateral trade. Under the new arrangement, which will run for five years beginning in January 1976, Bonn will increase the amount of interest-free credit granted to East Germany to \$340 million.

As their part of the deal, the East Germans have agreed to exempt old age pensioners residing in West Berlin from the minimum currency-exchange requirement for visits to East Germany beginning on December 20. In addition, West Germans will now be allowed to use their personal cars to visit virtually all parts of East Germany. Pankow also indicated it was prepared to improve road, rail, and canal links to West Berlin.

Pankow's decision to publicize Bonn's concessions prior to formal announcement of the agreement embarrassed the Schmidt government, which had promised West Berlin officials that no economic concessions would be made until Pankow exempted the pensioners from the cur-

rency-exchange requirement. Some West Berlin officials initially complained about not being consulted in advance about the decision to initial the credit agreement. Now that the East German concessions have been revealed, however, they seem generally content. Pankow's willingness to facilitate inter-German travel and its additional offer to supply West Berlin with 300 megawatts of electricity beginning next year have helped dispel the impression that Bonn offered the credit simply to gain a concession on pensioners. West Berlin Mayor Klaus Schuetz, who repeatedly urged Chancellor Schmidt to take a harder line in the negotiations, stated that Pankow's concessions and proposals were the most conciliatory gestures made by the East German leadership since he became mayor seven years ago.

Both sides will probably now move to sign the agreement on interest-free credit, perhaps before Christmas. The negotiations on the East German proposals to improve road, rail, and canal links to West Berlin will probably begin soon after the holiday season.

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ETHIOPIA: PROBLEMS IN ERITREA

The prospects for major fighting between government forces and separatists in Eritrea Province have increased. The military government is sending reinforcements to the province for a possible resumption of an offensive against the rebels. Such an offensive may provoke the rebels themselves to initiate more operations. Since the military revolt began in Ethiopia last February, there apparently has been little military contact between government and rebel forces.

The newly formed brigade of 1,500 men arriving in Eritrea will join the 7,500 regulars stationed there. The reinforcements are unlikely to increase the government's capabilities; they are poorly trained and unprepared for an anti-guerilla campaign.

According to the US consul general in Asmara, the rebels have gained considerable support among Eritreans since the killing last month of General Aman, an Eritrean who favored a peaceful solution to the 12-year-long insurgency. The army may attempt to dislodge the rebels from villages where they have been given shelter. As they have in the past, troops may also launch attacks on villages in reprisal for aiding the rebels.

In addition, the Addis Ababa government faces increasing disaffection among the 3,000

paramilitary police in the province. The force, which is under army command, is made up largely of Eritreans. In November the army was reported to have been unsuccessful in an attempt to get some police personnel to turn in their weapons. The army also removed police from some rural outposts and transferred them to Asmara.

Addis Ababa was relatively quiet this week as the military tightened security and rounded up Eritreans in the aftermath of recent bombing incidents apparently carried out by the rebels. The ruling committee demonstrated that it was getting down to the business of running the country by filling several key vacancies in the cabinet and the military services.

On December 10, the government announced the opening of trials for the first of the 170 former officials and officers charged with corruption and other offenses. The trials are to be conducted by a five-man military tribunal empowered to impose the death penalty. Newsmen were permitted to attend the abbreviated opening session, but subsequent sessions will probably be held in secret. Last week, government spokesmen responded coolly to appeals on behalf of the prisoners by the UN Secretary General and ambassadors of several countries.



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ISRAEL: SLOWLY TOWARD A DIALOGUE

Israeli Foreign Minister Allon completed two days of talks in Washington on December 10, meeting with President Ford, secretaries Kissinger and Simon, and members of the Senate Foreign Relations Committee. Allon indicated that his visit was intended to clarify prospects for a resumption of the dialogue with the Arabs, but said that no specifics had yet been agreed upon. The foreign minister also said more time will be needed to explore the matter, leaving open the possibility that he might return to Washington in early January.

According to an Israeli commentator, Allon implied that before he returns to Washington Secretary Kissinger will inform Egypt of several alternative Israeli withdrawal proposals. Another Israeli writer, citing "informed sources," claimed Allon said Israel would consider turning over to the UN forces the strategic Gidi and Mitla passes in the Sinai in exchange for Cairo's assurances that the Egyptian-Israeli front would remain peaceful for five to six years.

Israeli press reports had earlier said Allon was bringing to Washington several negotiating options, including Israeli pullbacks of from 6 to 30 miles, excluding the passes, depending on what Cairo might offer in return. Prime Minister Rabin reportedly had in mind agreement by Cairo to allow Israel two to three years to negotiate with Syria and Jordan over the Golan Heights and the West Bank.

A commentator in one of Israel's most prestigious dailies claimed Israel and the US had agreed that priority is to be given to negotiations with Egypt, but that Syria must be told the door to negotiations with Tel Aviv is open and that talks with Cairo are not necessarily linked to talks with Damascus. In addition, the US and Israel had agreed that the visit of Soviet Secretary General Brezhnev to Cairo in mid-January does not require the hasty formulation of negotiation proposals.

The commentator also claimed that the main point of Allon's presentation in Washington is that, in Israeli eyes, there is a correlation between

the depth of any second-stage withdrawal in the Sinai and the length of time any agreement is to last. Tel Aviv, in effect, wants to trade space for time. This concept reflects the strategy outlined by Prime Minister Rabin in an interview ten days ago. He suggested then that in return for a more durable second-stage agreement on another Israeli military withdrawal in the Sinai, Israel would not insist on formal Egyptian commitments, such as a declaration of non-belligerency. Instead, it would accept secret Egyptian assurances to the US.

Defending this interview before the Knesset on December 11, Rabin said his main purpose was to impede "warmongers" in the Arab world and to prevent Israel from being accused of undermining the search for a negotiated settlement. He added his hope that, as a result of Allon's Washington trip, a cycle of political contacts would resume, with Egypt, leading to progress toward peace. The Prime Minister cautioned, however, that he was not yet sure talks with Cairo are in the offing. Rabin was responding to a call by the rightist Likud bloc for a full Knesset debate on the interview, which Likud leader Begin characterized as unwise, and irresponsible.

Reflecting some of Likud's arguments, several commentators had earlier charged that Rabin's proposal weakened Israel's bargaining position in the absence of evidence of comparable Egyptian flexibility. The commentators also claimed the proposal prejudged Allon's discussions in Washington and would be interpreted by the Arabs as a sign of Israeli weakness.

A few other Israeli commentaries, however, approved Rabin's proposal. They noted the importance of displaying maximum Israeli responsiveness to the US interest in moving ahead with negotiations. These commentaries also pointed out the desirability, from a military point of view, of buying time and the importance of leaving open the option for Cairo to enter into a separate agreement with Israel.

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OMAN-IRAN: SLOW-STARTING OFFENSIVE

The Iranian-led offensive against rebels in Oman's Dhofar Province has gotten off to a slow start. In their initial clash with some 20 rebels on December 5, the largely untested Iranian troops suffered a reversal and admit to ten casualties.

The commander of the Sultan's armed forces attributes the losses to the Iranian troops' inexperience, and he expects the offensive to pick up soon. The Shah of Iran is committed to aiding the Omanis, and it is unlikely that he will allow the offensive to fail.

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Although the Omani government had anticipated that the rebels would be quickly forced to withdraw, the Dhofaris apparently intend to make a strong stand, at least initially. Military units from South Yemen—a primary source of rebel support—reportedly have agreed to a rebel request to take up positions near the Omani - South Yemeni border in order to free some 150 rebels to fight the Iranians.

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RHODESIA: CEASE-FIRE ANNOUNCED

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Prime Minister Ian Smith's truce agreement with the Rhodesian insurgents this week is the most promising step toward a negotiated settlement since the collapse of his constitutional agreement with the British in early 1972. Initial reports indicate, however, that the truce merely glosses over the basic issue of how soon a transition to majority rule in Rhodesia can be completed.

Smith announced on December 11 that the insurgents, who have been conducting terrorist operations in Rhodesia since late 1962, have agreed to an immediate cease-fire. In return, Smith has agreed to release all black nationalists detained in Rhodesia, some of whom have been imprisoned for ten years.

Smith also said that a conference for negotiating a constitutional settlement would soon be convened. He implied that the nationalist leaders who met in Lusaka last week to formulate a common bargaining position have agreed to participate in the conference.

The Lusaka talks, sponsored by presidents Kaunda of Zambia, Nyerere of Tanzania, and Khama of Botswana, were the culmination of secret efforts to resolve the Rhodesia problem. The three African presidents and Samora Machel, head of the Mozambique Liberation Front, have been collaborating secretly since October with South African Prime Minister Vorster in an effort to nudge Smith and the Rhodesian nationalists toward a settlement.

Late last week, an apparent impasse developed in the mediation efforts. According to Smith, his envoys in Lusaka were told that the Rhodesian nationalists would not accept a truce unless he agreed to immediate majority rule. There are indications, however, that the Rhodesian nationalists in Lusaka did not actually make this demand. Instead, Kaunda reportedly

told his aides, the hard liners among the nationalist leaders were holding out for preconditions to a truce that would guarantee transition to majority rule within a few years. At this point

Smith's envoys to the talks left abruptly for Salisbury without waiting for the blacks' formula for attaining majority rule to be explained fully.

Smith may have hoped that disclosing an allegedly extreme demand by the black nationalists would soften Prime Minister Vorster's mounting pressure on Smith to negotiate a compromise settlement. It now seems more likely that Vorster has pressed Smith to grant amnesty to the Rhodesian insurgents in return for a cease-fire. When Smith announced the truce, Vorster commented that the South African police who have been supporting the Rhodesian counterinsurgency campaign will be withdrawn as soon as terrorism actually ceases.

It will be difficult for all sides to make the truce agreement stick. The Rhodesian nationalists who met in Lusaka have issued a unity declaration that theoretically merges three guerrilla groups and the non-insurgent African National Council, the only nationalist group that Smith has allowed to function openly in Rhodesia. Past unification plans have failed because of the bitter feuding among the insurgent groups. It is not yet clear whether the hard liners are genuinely willing to honor the truce.

If the truce works well enough to bring the principal insurgent leaders to a constitutional conference, the principal issue will then be the transfer of power from the predominantly white electorate to the black Rhodesians, who outnumber the white settlers by over 20 to 1. A concrete agreement for a genuine transition to majority rule will be difficult unless Vorster and the black African leaders who helped bring about the truce maintain concerted pressures on Smith and the black nationalists.

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ANGOLA: TOWARD A ROUND TABLE

Despite some outward signs of progress in recent weeks, Lisbon is still far from an agreement with nationalist leaders regarding the decolonization of Angola. The Portuguese are now trying to convene a round-table conference with all the nationalist leaders, which they hope will yield positive results.

Late last month, Portuguese Foreign Minister Soares met privately in Zaire with three Angolan nationalist leaders: Holden Roberto, head of the National Front for the Liberation of Angola; Jonas Savimbi, leader of the National Union for the Total Independence of Angola; and Daniel Chipenda, who heads a Zairian-based faction that is challenging Agostinho Neto for the leadership of the Popular Movement for the Liberation of Angola. About the same time, Portuguese Minister without Portfolio Antunes met with Neto in Algiers. All the Angolans, with the possible exception of Chipenda, apparently agreed to the Portuguese proposal for a round-table conference.

The rivalry among the liberation groups has consistently stymied Lisbon's efforts to decolonize Angola. Portuguese officials may be overly optimistic that the conference can be convened or, if convened, that it will help iron out the nationalists' long-standing disagreements.



Foreign Minister Soares

In another attempt to attract the nationalists to join a coalition the Portuguese have reorganized the governmental structure in Angola. In a decree published late last month, Lisbon dissolved the military junta that has run the territory since last summer and appointed Admiral Rosa Coutinho, the junta president, as high commissioner.

The decree also calls for three minister-without-portfolio posts to be held by representatives of the three insurgent organizations. Theoretically, the ministers are to participate as equals and to coordinate a decolonization plan with the high commissioner. So far, however, the insurgent leaders, each bent on securing his own ascendancy in an independent Angola, have refused to share political authority in a transitional government for the territory.

Lisbon appears to be backing off from its long-held position that Angola's 500,000 whites will participate in any transitional government in the territory. The recent reorganization does not allow for a minister to represent the white community. Moreover, Lisbon does not intend to invite a white representative to the proposed conference. Angolan whites have long feared being excluded from decolonization arrangements, and they might react violently if the process showed signs of moving forward without them. The insurgent groups are demanding that whites cease considering themselves a separate power bloc and join one of the insurgent organizations.

While decolonization efforts hang fire, the liberation groups are steadily expanding their political efforts throughout Angola by establishing local offices and propagandizing in areas where they have tribal links. So far, these activities have been peaceful, but they could lead to clashes if any of the groups try to extend their efforts into another group's area. The Portuguese army, which has ceased recruiting local troops and is cutting back duty tours for troops from the metropole, may find it increasingly difficult to maintain order if whites or competing liberation groups resort to violence.

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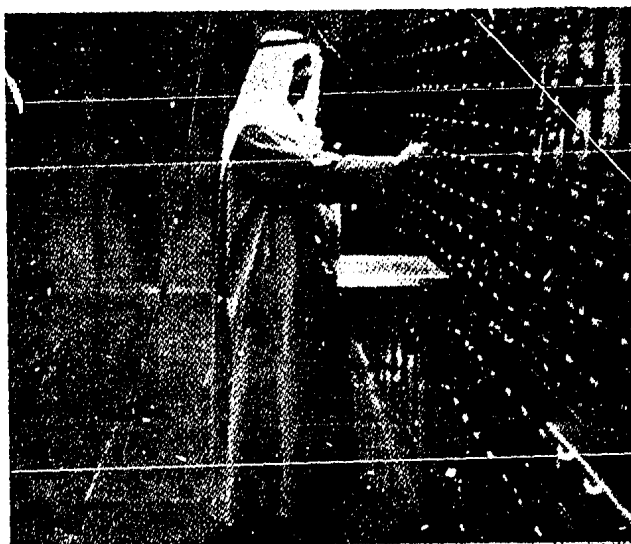
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OPEC: INVESTMENT IN THE US

Investment in the US by the members of the Organization of Petroleum Exporting Countries has accelerated since the end of the Arab oil embargo and the subsequent growth in oil receipts. At the end of November, nearly one quarter of OPEC investment abroad was in the US. Direct holdings amounted to \$16 billion; in addition, OPEC countries have apparently channeled additional funds through Switzerland and the Bahamas. Swiss holdings in the US have increased about \$5 billion this year, compared with last year's growth of \$500 million.

Investment by OPEC countries in the US will probably continue to increase both absolutely and as a share of their total foreign investment. Assuming no substantial change in oil prices or production, their foreign assets should increase by \$75 billion in 1975. Even if producers continue to invest only a quarter of their surplus in the US, direct holdings would reach \$35 billion by the end of 1975.

Concern about security and liquidity is clearly reflected in the composition of assets in the US. Short-term bank deposits and government securities account for nearly 90 percent of the total. Kuwait, the largest OPEC investor in other kinds of assets, has substantial holdings in real estate.



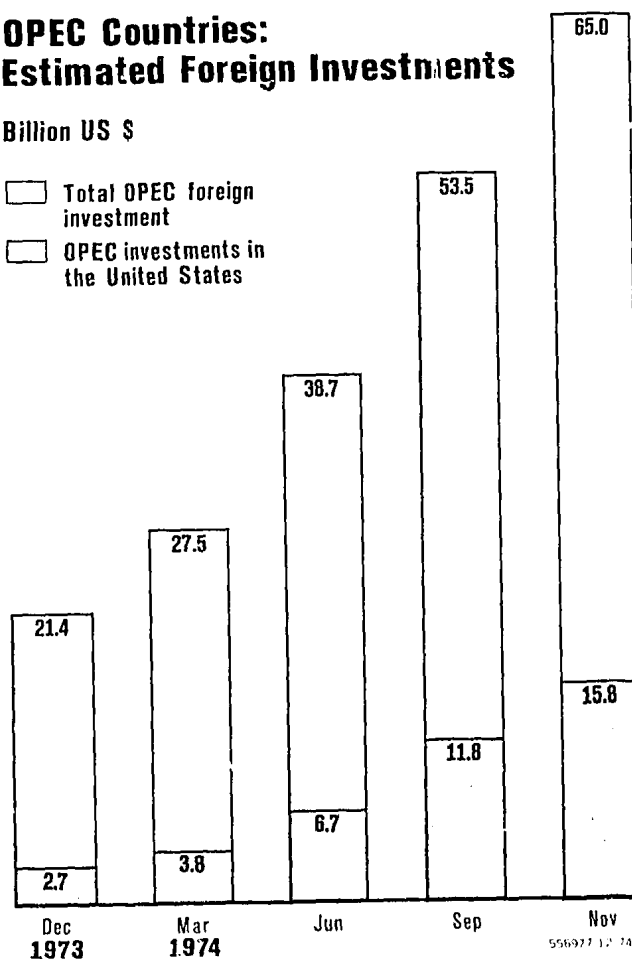
The sharp growth of investment in the US reflects the inability of the OPEC countries to find an attractive alternative. Many of the largest banks in Europe are saturated with the short-term deposits preferred by OPEC members and are accepting additional petrodollars only at reduced interest rates. Small- and medium-sized banks in Europe would welcome additional short-term deposits, but the oil producers are only gradually expanding the number of institutions with which they do business. The oil producers would probably like to increase the share of their investment in the stronger European currencies, but they are limited by capital controls and the small size of the markets.

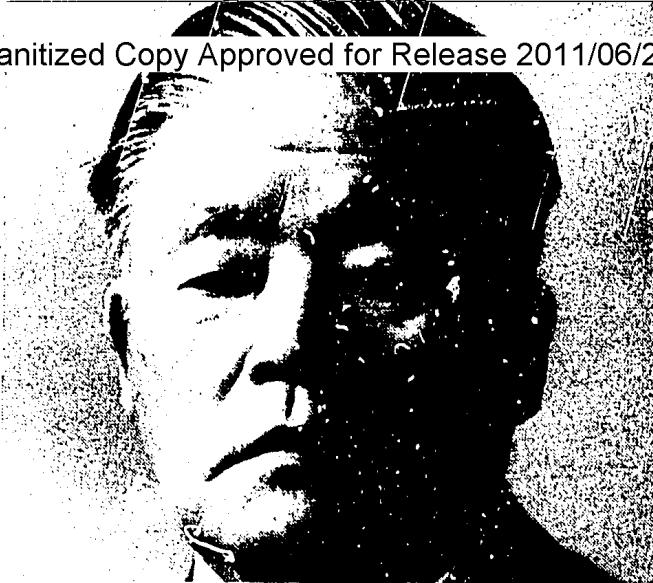
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OPEC Countries: Estimated Foreign Investments

Billion US \$

- Total OPEC foreign investment
- OPEC investments in the United States





Masayoshi Ohira



Takeo Fukuda

JAPAN: MIKI'S NEW GOVERNMENT

Shortly after his election as prime minister earlier this week, Takeo Miki announced a new slate of cabinet and party officers that balances powerful interests in the ruling Liberal Democratic Party. While Miki's choices do not signal any major policy shift, there is a potential for divisive struggle because of continuing rivalries within the party.

All major factions of the Liberal Democrats are represented:

- Takeo Fukuda, aging leader of the party's conservative wing, is deputy prime minister and director of the Economic Planning Agency. Three of his supporters received cabinet or party posts.
- Masayoshi Ohira, Fukuda's chief rival for power, remains as finance minister. Three of Ohira's supporters also received cabinet posts, including foreign affairs.
- As expected, former party president and prime minister Kakuei Tanaka did not receive a post, but four of his supporters are in the cabinet.
- Yasuhiro Nakasone, who played a key role in Miki's selection last week, is now secretary general of the party, a job he wanted.

Of particular interest is the balance of influence between Fukuda and Ohira. The Fukuda

faction has an important voice in both cabinet and party affairs, while the Ohira faction controls the most sensitive policy posts. To some extent, this reflects Miki's relationships with the two; as a progressive, he is closer to Ohira on most policy matters, but politically he is indebted to Fukuda—at least at this point.

Miki, a compromise choice for national leadership, improved his inherently weak political position with the team he put together, but he will clearly have to rely more on persuasion and maneuver than on the factional strength enjoyed by his predecessors. None of his supporters holds important party posts and only two are members of the cabinet. If strong rivalries or policy disputes erupt, Miki would lack the solid base of support helpful in enforcing restraint or making command decisions.

Miki, more than his predecessors, will feel compelled to rely on favorable public opinion to push his programs through the laborious process of party and cabinet approval. Miki's image as a reformer will help him with the public, and it has been buttressed by the large number of new—and somewhat younger—faces in his cabinet.

Miki has already spoken out in favor of stronger anti-trust provisions and has refused to relax anti-pollution standards, but major domestic policy shifts do not seem imminent. Ohira continues to hold the most important economic post, although he will now be contending with Fukuda,

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who chairs a key economic committee within the cabinet. Despite their political rivalry, they do not differ fundamentally on economic philosophy.

The new foreign affairs minister, 55-year-old Kiichi Miyazawa, is also in the mainstream of Japanese views on foreign policy. Well disposed toward the US, experienced in economic negotiations, and fluent in English, Miyazawa will be a key participant in the formulation of Japanese positions in international economic as well as political issues.

LAOS: SOUVANNA BACK IN THE ARENA

Prime Minister Souvanna Phouma interrupted his convalescence late last week to participate in full-dress meetings of the coalition government's cabinet, Council of Ministers, and Joint National Political Council in the royal capital of Luang Prabang. He survived all of the conclaves in reasonably good shape and made a special effort to convince coalition colleagues, the King, and foreign diplomats that his recuperation was proceeding satisfactorily.

The cabinet meeting was the first Souvanna has chaired since his serious heart attack in mid-summer. Both sides reportedly agreed prior to the meeting not to raise contentious issues that might prove detrimental to Souvanna's health. As a result, the highly controversial question of recognizing the Viet Cong's Provisional Revolutionary Government and Sihanouk's Cambodian government was not addressed.

The non-Communists, who have been apprehensive over what they perceive as Souvanna's growing inclination to tilt politically toward the left, were apparently pleased by the Prime Minister's performance. Souvanna supported the non-Communists' position on a highly charged local labor dispute and upheld their objections to portions of a bill on democratic freedoms proposed by the Pathet Lao that would have imposed a system of censorship on Lao news media.

Souvanna also held up well physically at a meeting he requested of the Council of Ministers,

presided over by Lao King Savang, to discuss procedures for dissolving the dormant, rightist-dominated National Assembly. The Prime Minister proposed that the assembly be replaced by the Joint National Political Council, which would be converted into a legislative body by expanding its present membership from 42 to 72 delegates following a national referendum on the new appointees by provincial governors and district chiefs. The 30 additional delegates, like the original 42, would be equally divided between the two sides.

The King was sympathetic to Souvanna's plan and reportedly agreed to dissolve the assembly provided constitutional procedures are followed to his satisfaction. This is easier said than done as the constitution predates the coalition government and does not take into account present political realities. Nevertheless, Souvanna is optimistic that his plan can find its way around constitutional problems, even though there is bound to be considerable horse-trading within the coalition before the plan is finally set in motion.

Neither the cabinet, nor the Council of Ministers' meeting, nor Prince Souphanouvong's keynote speech opening the second plenary session of the Joint National Political Council provided any hint of a new or hardened Pathet Lao political line flowing from the extraordinary two-week conference of the Lao Communist Central Committee that recently concluded in Sam Neua. This suggests that, for the time being at least, the Communists may be content to follow Souvanna's lead in pressing for conversion of the political council into a new national assembly. Indeed, the ceremonial fanfare surrounding the council's opening session last week appeared carefully orchestrated by the Pathet Lao to enhance the stature of the council and particularly that of its chairman, Communist leader Souphanouvong.

If, as seems likely, the political council is converted into a new national assembly, the coalition's legislative machinery will fall under the effective domination of Souphanouvong. The Communists will then be in a strong position to influence the laws of the kingdom.

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VIETNAM

DRY SEASON CAMPAIGN UNDER WAY

The flurry of generally small-scale attacks in the southern half of South Vietnam which began late last week appears to mark the beginning of the ambitious military campaign the Communists have planned for the first half of 1975. The opening round began in the southern delta with a number of shellings and small ground attacks against the more remote government outposts, with strong emphasis on cutting major highways. By last weekend, the attacks had spread into the northern delta provinces and into some areas closer to Saigon. At week's end, several district towns have been isolated and fighting continues in many areas.

Most of the attacks are being carried out by local Viet Cong units against the government's territorial forces. Some of these attacks are designed to mask the movement of parts of the Communist 5th Division into the delta, and the South Vietnamese regional commander in the delta has deployed forces to cut off the infiltration. In the provinces around Saigon, much of the action is in the farther reaches of Military Region 3, well away from the government's three combat divisions. Thus far, government commanders have been able to rely largely on provincial forces and save regular units for the heavier action expected later.

During the coming weeks, the Communists are likely to make greater use of North Vietnamese main-force units in some of the more vulnerable areas of military regions 3 and 4. In other areas, especially in the western highlands, government operations and troop deployments may force the Communists to delay offensive action. No major Communist initiatives are expected in the northern coastal areas at this time, largely because of the rains, although terrorist incidents and sapper attacks against bridges and highways are likely to increase.

Most South Vietnamese military officials are confident that they can cope with the increased

Communist military action. In many instances, they appear to have adequate intelligence information on Communist movements and intentions. Their major concern, however, is the increasing difficulties imposed by fuel and ammunition constraints. In some areas of the delta, for example, all of the helicopter flying time allocated for the month of December has already been used and ammunition is being spent at a greater rate than programmed.

SOVIETS CONCLUDE AID AGREEMENTS

Moscow this week concluded back-to-back aid agreements for 1975 with North Vietnam and the Viet Cong's Provisional Revolutionary Government. The Viet Cong, according to a Tass announcement on December 10, will receive oil products, foodstuffs, medicines, trucks, and agricultural machinery. The Soviets first extended direct economic aid to the South Vietnamese Communists in 1973.

In announcing the aid agreement with North Vietnam on December 8, Moscow—as it has since the Paris agreement was signed in early 1973—carefully avoided any mention of military assistance. Radio Hanoi, however, said last week that the agreement would cover “economic and military aid” and, as if to underscore the point, publicized the presence of a North Vietnamese deputy defense minister on the aid-seeking delegation to Moscow.

On December 10, Tass announced that General Kulikov, chief of the Soviet General Staff, will be visiting North Vietnam in late December. Kulikov, who will be making his first visit to Hanoi since being named chief of staff in 1971, is probably going to take part in ceremonies later this month honoring the 30th anniversary of the North Vietnamese army. During the course of his visit, he may also review Hanoi's military requirements.

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MALAYSIA: INTO THE STREETS

Malaysia has been relatively untouched by the student unrest that has recently afflicted many of its Asian neighbors. Last week, however, Malay university students found a rallying issue, and Prime Minister Razak's government is having difficulty getting them back into the classrooms.

Student agitation began early in the week with a protest against government neglect of Malay small-holder rubber farmers in the north-west, but the demonstrations gradually assumed a more general anti-government tone. Students charged the Razak regime with insensitivity to the needs of rural Malays and demanded greater responsiveness to the popular will. They also alleged widespread government corruption and condemned the ostentatious life style of Kuala Lumpur officialdom. The students were particularly critical of Razak's well-publicized program of "Malaysia for the Malays," which is designed to dilute Overseas Chinese dominance of the economy; they charge that in practice it has become "Malaysia for the Rich Malays" and ignores the majority who live in the villages.

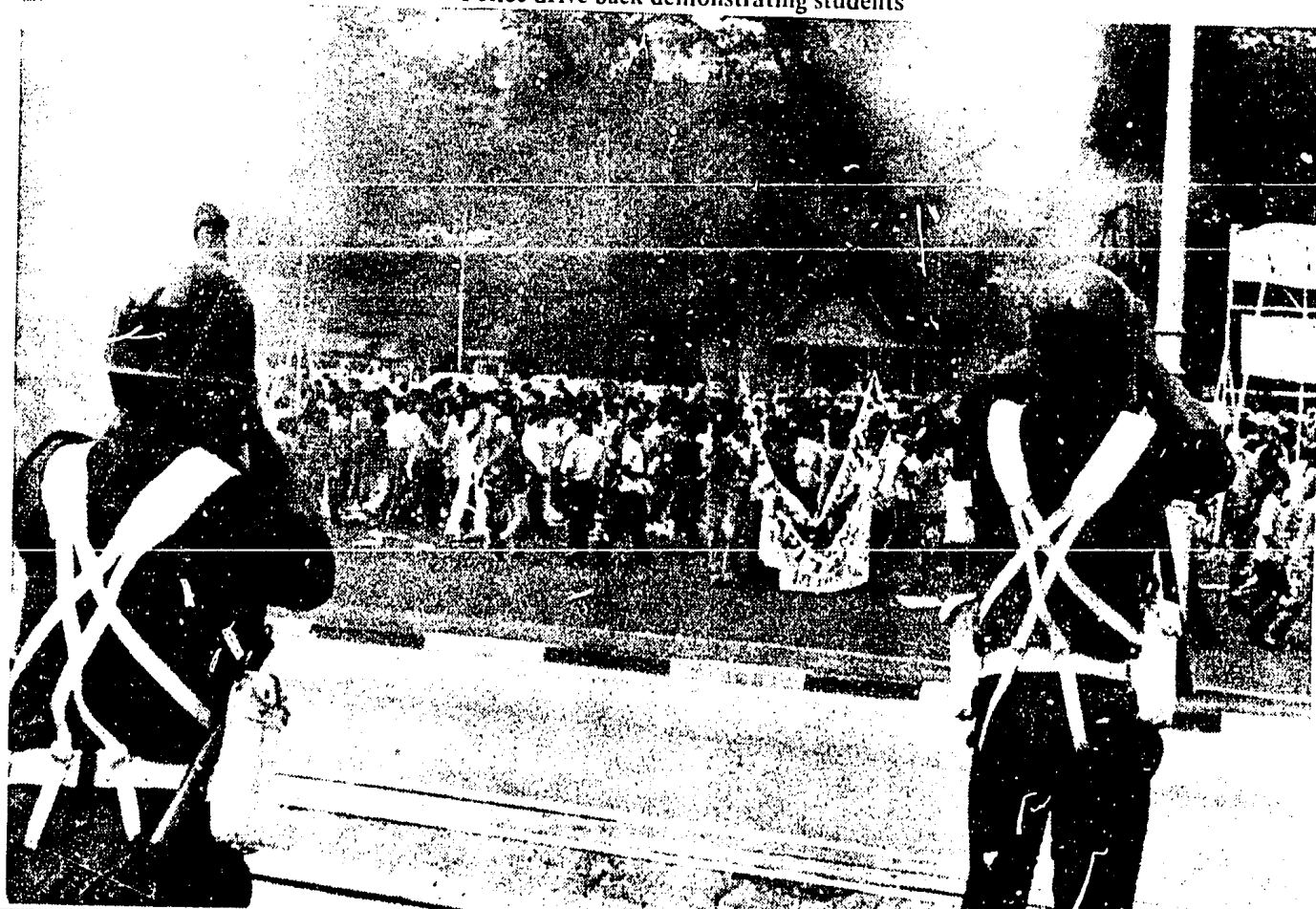
Razak charges that the student activists are only a small, fringe group, bent on overthrowing

the government. He refuses to compromise on their demands, and on the morning of December 8 sent riot police onto the campuses to arrest the protest leaders along with some university lecturers accused of inspiring them. The police action ended the sometimes-violent street protests, but the students have continued to demonstrate on the campuses.

The protest activities have engendered a new esprit among Malay student organizations, proving to their leaders that secular and Islamic organizations can unite on broad nonideological issues. Government action has not dampened the students' ardor and has given them new rallying issues—calling for release of the detainees, protesting the invasion of university grounds, and demanding that examinations be postponed because students have been unable to study. The newly born solidarity has reportedly also extended to non-Malay students, who are now joining the protest. Whatever the final resolution of the present confrontation, if the students can retain their present unity they will become a significant political force for the first time in many years.

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Police drive back demonstrating students



UNREST IN BURMA

Student-initiated protests over the government's alleged mishandling of funeral arrangements for former UN Secretary General U Thant have developed into a serious challenge to the government's authority and have damaged its already shaky standing with the public. A violent confrontation was triggered in Rangoon this week when the government abandoned its earlier policy of restraint toward the student protesters and moved in troops to arrest the ringleaders and clear Rangoon University campus. Demonstrators, including some non-students, subsequently went on a rampage through downtown Rangoon. Troops fired on the mob, reportedly killing at least 17 demonstrators.

Student leaders have indicated that they hope to bring down the regime, but there is no apparent civilian alternative to President Ne Win and his military colleagues. Thus far, there has been no indication of disloyalty among the troops, and the government probably will be able to weather the immediate crisis as long as the army remains loyal.

Martial law has been declared in Rangoon and several thousand students and other demonstrators have been arrested. Additional troops and tanks have been moved into the downtown area, and the city reportedly was quiet by late in the week. Earlier, authorities had ordered all educational institutions closed indefinitely.

The trouble started last week when students intervened in U Thant's funeral ceremonies, carried his casket to the university, and demanded that the government provide a "fitting" burial site. The government at first agreed to set aside a special plot, but the students, who sought to continue their campaign against the regime, rejected this offer. When the protests began to take on an increasingly virulent anti-government tone, troops moved in to clear the campus and U Thant's body was finally taken to the government-provided plot. Ne Win had long been hostile to U Thant, who was a close associate of exiled former prime minister U Nu, and the government had originally rejected the idea of a special gravesite.

The government clearly underestimated the students' determination and the degree of public support for their stand. U Thant was widely respected in Burma for the important role he had played on the world scene, and the government's attitude stirred public resentment. The students also received the active backing of some Buddhist monks. Moreover, the regime had already lost favor among some groups because of the country's worsening economy.

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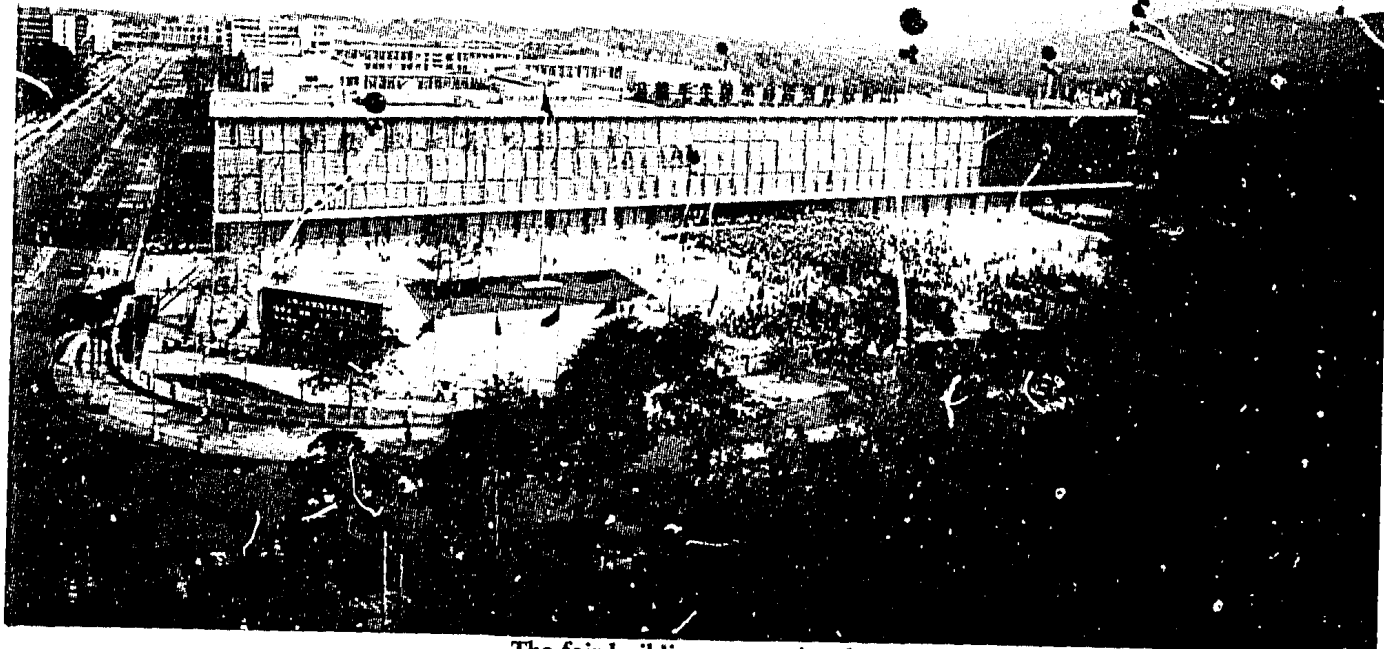
BUSINESS OFF AT CANTON FAIR

Business transacted at the recently concluded Canton Fair was at its lowest level in years. The value of contracts signed—about \$700 million—dropped about 30 percent below the level of the spring fair and 45 percent below the fair last fall. Attendance was also down—by about 10 percent—with only Americans, Australians, Canadians, and Overseas Chinese present in larger numbers than last spring.

Chinese purchases at the fair declined sharply. In recent months, Peking has been postponing or cutting back its imports of farm products and some industrial materials in the face of a rising trade deficit and a temporary shortage of foreign exchange. China also has been shifting much of its purchasing outside the Canton fairs. As at the spring fair, no representatives of Techimport, the Chinese importer of whole plants and technology, were present.

Sales of China's traditional exports suffered from the depressed state of the world economy. Businessmen arrived in Canton with little interest in adding to large inventories of Chinese goods purchased at high prices at previous fairs. The Chinese were anxious to sell; importers found them more willing to meet requests for changes in styling, packaging, labeling, and shipping arrangements. Although Chinese prices were generally lower than at the spring fair, they often remained sufficiently above the level of world prices to preclude business. Even large price cuts for

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The fair building on opening day

Chinese textiles were not sufficient to overcome declining world demand.

Chinese sales of minerals and metals were a bright spot at the fair. Price reductions during the last week of the fair resulted in the largest sales of tin, antimony, and tungsten in years. Contracts for Chinese foodstuffs equaled the level of last spring; light industrial products showed higher volume, but probably lower value due to necessary price cuts.

The dismal performance of Chinese sales at the fall fair will retard Chinese export growth next year. Increased sales of petroleum will probably offset the decline in traditional exports, but the sharp increases in export earnings achieved in 1973 and 1974 are not likely to be sustained. Peking will probably continue to restrict less essential imports and may widen the use of credits in the year ahead.

While total attendance declined, a record 300 US traders visited the fair and signed contracts worth about \$40 million. US purchases of \$39 million were double the level of the spring fair and matched the total of last fall. Sales were less than \$1 million compared with about \$2 million at the spring fair, but US firms held discussions in Canton that could lead to later purchases. The Chinese were more vocal than at previous fairs about the adverse effects of the lack of most-favored-nation status for Chinese exports to the US.

Most other countries reported lower levels of business at the fair. The Japanese contingent, traditionally the largest, dropped from 2,300 last spring to 2,000. The value of Japanese contracts fell from \$200-300 million last spring to only \$150 million. Business transacted by Hong Kong traders reportedly was down by as much as 50 percent.

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AUSTRALIA: DEEPENING TROUBLES

The Labor government's continuing slide in popularity has been punctuated by a serious defeat in an important state election and by widespread criticism of two political appointments.

Labor's loss of as many as 22 state parliamentary seats in the Queensland election last weekend was the most dramatic manifestation to date of its declining public support. The outcome represents a major personal setback for Prime Minister Whitlam, because he and virtually his entire cabinet campaigned extensively throughout the state. Although there is more resentment in Queensland than in most other states over the Whitlam government's policy of increasing federal authority, the election result nevertheless reflects growing national disappointment over the government's failure to come to grips with Australia's unemployment problems and financial difficulties.

A public outcry over two official appointments that are being portrayed as blatant political favoritism has aggravated the government's troubles. The appointment last week of a close woman friend of Deputy Prime Minister Cairns and Attorney General Murphy to a highly paid position as Cairns' private secretary is viewed as evidence of the hollowness of the administration's boasts about its high principles. Aside from her lack of qualifications, the woman and her husband have been charged with circumventing government immigration regulations and with shady business dealings. Murphy rather than Cairns seems to have been involved in the couple's misadventures. A spirited debate of the matter in the Senate could lead to Murphy's resignation. Whitlam himself came under attack this week for naming his former private secretary to a senior public service position.

The steady decline in the government's standing has strengthened speculation in Canberra that there will be elections in the first half of next year, and that Labor will be ousted from office.

UN: THE KOREAN ISSUE

South Korea and its supporters this week turned back a North Korean effort to win UN endorsement for the removal of US forces from the peninsula, but the issue will not be resolved until early next week.

A pro-South Korean resolution, confirming the authority of the Security Council in maintaining the military armistice on the Korean Peninsula, passed in the Political Committee of the General Assembly by a vote of 61 to 42. Another resolution, proposed by Communist and Third-World backers of North Korea, called for an end to the UN Command and the US military presence in Korea—with no provision for maintaining the armistice; it was defeated on a 48-48 tie vote.

The pro-Seoul resolution will be reported to the plenary session of the General Assembly, where its passage early next week seems assured. Supporters of North Korea, however, may seek a vote on their resolution at the plenary in hope of diluting the expected South Korean victory.

In any case, the North Koreans can take some comfort from a provision in Seoul's resolution that calls on the Security Council "in due course" to consider the dissolution of the UN Command. They may also see the close vote as a bargaining chip, however small, in their continuing effort to negotiate directly with the US on the troop removal issue.

The considerable Third-World support for the North Korean position at the UN reflects recent changes in the political coloration of the General Assembly. Third-World votes, added to those of the Communist states, came close to forming a winning combination. Korea, however, was one of the few issues at the current General Assembly session—Cambodia was another—on which the "nonaligned" bloc was unable to maintain a united front. In addition to most of Latin America, the South Korean side held the support of many African and Arab states, while the majority of South and East Asian states simply abstained.

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VENEZUELA: TAKING THE FIRST STEP

Last week, the Perez administration cleared the way for the nationalization of the largely foreign-operated petroleum concessions by mid-1975; only the timing remains in doubt.

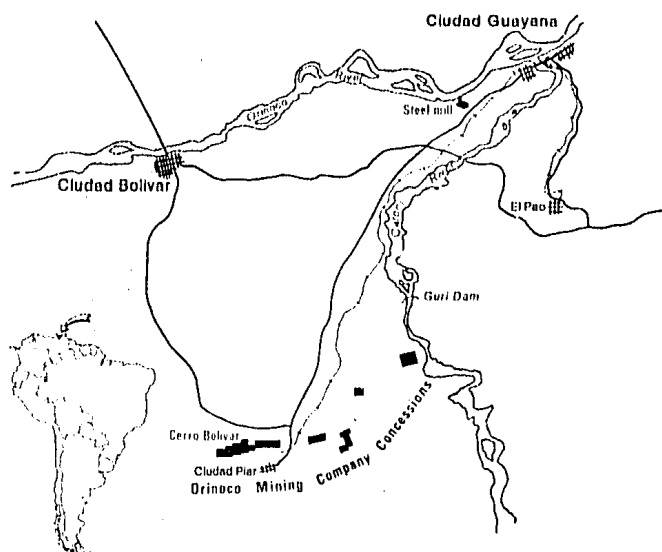
On December 3, the Venezuelan Supreme Court rejected a petition of seven international oil companies to declare unconstitutional the 1971 Petroleum Reversion Law, which stipulated that all properties owned by foreign oil companies in Venezuela will revert to the state when the concessions begin to expire in 1983. By rejecting the petition at this time, the court cleared the path for the accelerated nationalization of the petroleum industry announced by President Perez in April 1974. The oil companies have accepted the news philosophically. In expectation of such a ruling, the local US subsidiaries have been meeting with Venezuelan officials in thus far cordial, low-key sessions regarding the role they will be permitted to play after nationalization.

In a related move, the special presidential commission on reversion—appointed last May to prepare recommendations on how the take-over of the oil company properties should be implemented—unveiled its draft Petroleum Reversion Law, which may be presented formally to President Perez this week. Although the bill does not assign the foreign oil companies any specific role in the exploration, extraction, refining, or marketing of Venezuelan oil, government officials have privately indicated to the companies that the government wants to retain their services in management, technology, and overseas marketing. These officials have been unusually candid in their negative assessment of the government's ability to manage the petroleum industry, which produces the bulk of the country's foreign exchange and government revenues. Further recommendations—that compensation for the nationalized holdings be calculated on un-amortized book value and be paid in government bonds redeemable in no less than ten years, and the appointment of "watchdogs" to monitor the foreign oil companies during the transition period—are expected to get a cool reception from the local petroleum subsidiaries.



President Perez

*Announcing nationalization
of iron ore industry*



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President Perez will have the final say on the contents of the nationalization bill before it is presented to Congress for debate sometime early next year. In fact, during the concluding meetings of the reversion committee, members of the President's own Democratic Action Party withdrew from the deliberations, reportedly to give the President a free hand to disagree with and alter the committee's recommendations.

Although some local US petroleum operators are confident that they will be well treated after reversion, they realize there is plenty of hard bargaining ahead. The Perez administration, at the peak of its popularity following the nationalization last week of the US iron ore concessions, will be under heavy political pressure to speed up the pace of nationalization and loosen what many Venezuelans see as a foreign hold on their natural resources. Despite differences with the oil companies and the US government on a number of issues, Perez has resisted these blandishments thus far and will probably continue his steady, determined course on oil nationalization.

ARGENTINA: NEW SECURITY APPARATUS

President Maria Estela de Peron has asked the Argentine Congress for authority to reorganize the security and intelligence organizations as a step toward improving the counter-terrorist campaign. The draft laws are likely to engender sharp debate, but the Peronist majority in both houses would ensure their passage.

The reorganization would provide an inter-agency coordinating body for the intelligence services of the federal police, the armed forces, and the civilian intelligence agency. Counter-terrorist operations have frequently suffered because of a lack of cooperation among these agencies.

The government has been deeply dissatisfied with the performance of the state intelligence secretariat and the federal police. Before Juan Peron's death, there were plans for creating a super-security mechanism with wide powers, but the idea was pigeonholed because of presidential adviser Lopez Rega's opposition to the naming of a military man to head it. The security committee now under study would be chaired by Mrs. Peron—a move that sidesteps the powerful minister's objection to an organization independent of his control.

Lopez Rega wants to retain a strong voice in internal security decisions. He already has close connections with top federal police officials.

The President's decision to press for new legislation may have been hastened by the killing last week of another army officer and his young daughter. The military wants strong antisubversive measures. Some junior officers apparently have begun to form vigilante squads to hunt down leftists.

THE AYACUCHO MEETING

The four-day meeting of high Latin American and US officials in Lima provided a forum for informal discussion of bilateral and regional problems. The various speeches and final declaration, however, provide few new insights, and the familiar themes of regional solidarity, economic independence, and ideological pluralism were again highlighted.

Although the overall impact of the meeting was lessened by the absence of four heads of state who had been invited to commemorate the battle of Ayacucho, the conclave was well covered by the Latin press, and the Peruvian hosts probably feel that they got as much publicity as they could. With one exception, the security forces were able to maintain order.

As expected, President Velasco of Peru and President Perez of Venezuela vied for the limelight as regional spokesman. In their speeches and other statements, they stressed similar topics, such as the need for a new economic and political relationship between the Latin states and the developed countries, increased regional cooperation on political and economic matters, and bringing Cuba back into the mainstream of regional affairs.

In addition to these themes, President Velasco stressed two current Peruvian policies: a regional arms moratorium and—indirectly—the need to prevent conflicts between Latin states. The notion of regional arms limitations received general endorsement but, as before, it is not likely to be implemented soon. Velasco's statement concerning conflict between Latin states was the first time Peru has gone on record at a regional meeting advocating a multilateral effort to reduce tensions. Velasco's formulation of this idea, which was reflected in the final declaration, was rather vague but is further evidence of Peru's effort to convince other states that it harbors no aggressive designs.

Cuban Foreign Minister Raul Roa attended the meeting and spent a good deal of his time thanking those states that supported the abortive OAS move to rescind the political and economic sanctions against his country. In turn, other Latin



Lima

delegations, particularly Peru and Venezuela, expressed support for increased Cuban participation in inter-American affairs.

Thinly veiled accusations against the US for meddling in Latin affairs were made by many of the representatives, but the level of anti-US invective remained relatively low. US Assistant Secretary of State Rogers was able to meet informally with a number of Peruvian leaders including the President. While the tone of these meetings reportedly was positive, Peruvian officials still suspect that the US is committed to "destabilizing" their military government. Other Latin countries, too, apparently remain troubled by recent allegations of US interference in their internal affairs.

The stage is now set for several potentially more important Latin summits next year. High on the regional agenda are the meeting of all Latin chiefs of state in Caracas and the hemisphere foreign ministers' meeting to be held in Buenos Aires next March. Strong sentiment in favor of inviting Cuba to the latter meeting was voiced at the Lima conclave. The Cuba issue and concern that the US is not really committed to a dialog with Latin America, however, continue to cast a shadow over the prospects for a productive inter-American discourse.

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